SAMPLE

ESG MADE EASY

WHY SUSTAINABILITY MATTERS.

APPLYING ESG FOR COMPETITIVE BUSINESS SUCCESS

STEPHANIE MCEVOY

ESG Made Easy

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Welcome

Do we value the present more than we value our future?

The World Economic Forum reported that globally, climate change is considered a major threat to society.

And yet

Collectively we are not taking the action that could stabilise global temperatures within the scope of 1.5℃ warming. In 2023 the average temperature will already have increased by 1.2℃. We need immediate, widespread action.

A global study by IBM of 14,000 adults - 93% of global citizens say Covid-19 influenced their views on Sustainability and its importance.

If those figures were modelled out into a larger demographic, surely that would encompass at least some of your

Customers

Employees

Future Clients

Which is why business needs to take action on Sustainability, or Environment, Social & Governance issues - ESG - and why this book will help to make that process a little easier to understand.

The content of this book is for general information only. It is not, and should not be taken as, legal advice. If you require any further information in relation to this article please contact the author in the first instance. Law covered as of June 2023.

Chapter 1

Understanding ESG

But I am a [insert >literally< any job title here].....

How does this affect me?

In 2022 there were 10 climate events across the world that each cost their government more than $3 billion.

& this is just the tip of the iceberg.

These events occurred in all populated continents, and when one hurricane, Hurricane Ian, causes damages that cost $100 billion - Governments, businesses, NGOs, Communities all take notice.

This **affects everyone.**

Introduction

More than 200 countries are legally bound to deliver their commitment to the Paris Agreement which outlines a consensus to keep global temperatures within 1.5℃ above pre-industrial levels. We need international collaboration between countries, cities, businesses and other institutions to deliver this.

“Every 0.1℃ **of warming we can avoid, by our calculation, is saving 140 million people from exposure to unprecedented heat and the harms that could come with it” - Tim Lenton**

Tim Lenton, Director Global Systems Institute at the University of Exeter

The vision is high level and all encompassing, in order to deliver on net zero at a national level, governments are using legislation to mandate change. Many businesses are affected by these regulatory & legal changes directly, although others feel the impact through the incorporated sustainability metrics within public procurement standards. In the UK there are many government departments that are applying Environmental & Social Value requirements to their tendering process. Change is widespread as every business that tenders for public projects, is required, as per the Science Based Target Approach, to include BOTH - the impact of their supply chain, as well as understand and report on their own ESG position. This inclusion of all businesses supplying the tendering company creates a competitive opportunity to implement ESG in the supply chain & delivers the changes that the government is legally obliged to deliver.

Let’s use an analogy, but the same principles apply for projects of valuations into multi millions.
A Government Department wants a year's supply of toilet roll. They tender for this requirement. Two companies submit a tender response each. Company one charges £0.80 per roll, Company two charges £1.00 per roll. Previously this would have been all the information required to make a decision, & the cheapest tender response would have won. However public spending is now more scrutinised, social value is mandated in certain jurisdictions and generally all large expenditure projects will need to assess which is the Most Economically Advantageous Tender (MEAT). This considers the non-financial value, including demonstration of ESG from all of the submitted tender responses.

A little more context to the organisations: Company one’s product is created from 100% virgin materials, sourced from unsustainable forestry practices and is produced far away, with a large carbon footprint. Company two is environmentally accredited, their products are made in part with recycled goods and all non-recycled paper is derived from timber forests with sustainable practices. It is made locally and has a carbon reduction plan in place, and a comparatively lower carbon footprint. The Government Department will consider the overall value and make a decision with all elements considered, instead of selection based on the cheapest price.

Businesses that bid for public procurement are held accountable for emissions, within three scopes. The first and second scope emissions relate directly to the tendering company and their operations. Scope three emissions are calculated based on the supply chain of a company, and are included in the overall carbon footprint. For the companies within these supply chains, if their processes lack efficiency and are carbon intensive, they will lose clients to more carbon efficient competitors. Public procurement deliverables can vary widely depending on regulations and geography, but all of the countries that have committed to Net Zero goals will integrate them in some way. For every business within three degrees of separation of the aspiring tender submissions, approaching ESG proactively will improve their business prospects.

This is not just for businesses that are directly or indirectly servicing public projects.

Imagine you were walking through the cleaning aisle at your supermarket, there is a good chance that you'll notice rows of "eco" products, with green labels that tout the company's sustainable credentials. The market value of sustainable cleaning products is set to triple in the next 7 years. If you left and went to any high street clothes store, you will likely notice that there are lines of clothing that are "eco/green/sustainable" with lots of accompanying visual branding of the line within the shop.

From carpets to concrete - companies in every industry are trying to show the market that their practices are eco-friendly and that purchasing their products is better for the world than purchasing from the competition.

Increasing the sustainability of a company is often a great economic decision, despite the initial cost of changing the status quo. Increasing efficiency can reduce manufacturing and energy bills, and the process can differentiate you from competitors. Businesses that incorporate sustainability within their organisation can avail of cost efficiencies and market opportunities. ESG implementation is designed to deliver on a Triple Bottom Line (TBL), of people, planet and profit.

The term "deliver to a triple bottom line" refers to the concept of considering three dimensions of performance - social, environmental, & economic - when evaluating the success and impact of a business. It is a framework that expands beyond financial metrics and takes into account the broader value created by a company in terms of its people, planet, and profit.

Here's a breakdown of each component:

Social: The social dimension considers the impact of a business on people and society. It encompasses factors such as employee well-being, labour practices, community engagement, diversity and inclusion, human rights, and customer satisfaction. It takes into account the positive contributions a company makes to society beyond its core products or services.

Environmental: The environmental dimension focuses on a company's impact on the natural environment. It includes aspects like resource conservation, waste management, greenhouse gas emissions, pollution prevention, and environmental sustainability. Businesses are increasingly expected to reduce their environmental footprint, adopt sustainable practices, and contribute to the preservation and protection of ecosystems.

Economic: The economic dimension refers to the financial performance of a business and its ability to generate profits, create economic value, and provide returns to stakeholders such as shareholders, investors, and employees. It encompasses traditional financial indicators like revenue, profitability, and shareholder value.

The TBL involves managing risks and opportunities across all three dimensions, and striving for long-term value creation that goes beyond short-term financial gains. Embracing the triple bottom line approach is a fundamental aspect of ESG.

What is ESG?

ESG (noun) UK US

abbreviation for environmental, social, and governance; a way of judging a company by things other than its financial performance, for example its policies relating to the environment and how happy its employees are.

It represents a framework for evaluating the sustainability and ethical impact of a business. Each of the three key dimensions play a crucial role in assessing a company's overall ESG performance.

The **Environmental** component focuses on an organisation's impact on the natural world. It involves evaluating factors such as

- carbon emissions,
- energy efficiency,
- waste management,
- resource consumption,
- & climate change mitigation.

By addressing these environmental considerations, businesses can strive to minimise their ecological footprint and contribute to a more sustainable future.

The **Social** impact examines how a company interacts with various stakeholders, including employees, customers, communities, and society at large. It encompasses factors such as

- labour practices,
- human rights,
- diversity and inclusion,
- community engagement,
- & elements of safety at work.

By prioritising social responsibility, businesses can foster positive relationships with their stakeholders and contribute to the well-being of the communities in which they operate.

Governance refers to the internal structures and practices that guide a company's decision-making processes. It involves aspects such as

- board independence,
- executive compensation,
- shareholder rights,
- risk management,
- & transparency.

Strong governance ensures ethical behaviour, effective risk management, and responsible decision-making, thereby promoting trust and confidence among stakeholders.

Put simply - Environmental considerations influence how a company manages its energy usage, waste, and implementation of sustainable practices. Social factors influence how a company treats its employees, engages with customers, and

contributes to the broader community. Governance practices determine how a company is governed, how decisions are made, and how it is held accountable.

Measurement of ESG varies widely depending on what is being measured, and whether that produces clear numerical data, or something more intangible. The difficulty in ESG measurement is one of the reasons that ESG reporting is coming under more scrutiny. In order to standardise ESG Measurement there are multi-disciplinary reporting frameworks.

In recent years, reporting on ESG performance has gained significant importance. Reporting allows all stakeholders, including investors, customers, and regulators, to understand the impact of the organisation with transparency and accountability. Robust ESG reporting enables communication of initiatives, performance, and progress in a standardised and comprehensive manner. It facilitates informed decision-making, enables benchmarking against industry peers, and demonstrates a commitment to sustainable practices.

Regulatory momentum has been observed worldwide, with governments implementing regulations to incentivize or enforce ESG integration. An example of this is the EU CSRD (Corporate Sustainability Reporting Directive), a measure within the Sustainable Finance Package that will standardise ESG reporting; it will integrate elements of other notable standards to create a uniform expectation across industries. The ambition is to improve the robustness of reporting and provide a single standard, as navigating the acronyms of sustainability can be overwhelming.

The vocabulary around ESG is often confusing and in an effort to establish clarity on the goals and targets within the movement, the UN created the Sustainable Development Goals. There are 17 goals with 169 targets in total that help all parties communicate about their ESG strategy in a clear and measurable way. However the intended clarity missed the mark because for some people this is another acronym in a long list of jargon. The UN SDG provides a great starting point to understand where a business is, what they are doing well and how they could improve their business relevant to ESG.

Institutional investors are increasingly considering ESG factors in their investment decisions, recognizing the financial risks associated with neglecting sustainability. Consumer demand is also driving market opportunities, as conscious consumers prefer brands that prioritise sustainability and ethical practices. Furthermore, innovations in renewable energy, clean technologies, circular economy models, and data analytics are paving the way for sustainable solutions across industries.

Across Europe and the United Kingdom, there has been a strong focus on ESG integration, with robust regulatory frameworks and reporting requirements. In the UK it is increasingly a mandated element of public procurement. Organisations across industries are actively adopting sustainable practices to align with these standards. Additionally, universities in the United States, such as Harvard and Stanford, are conducting extensive research on ESG and sustainability, providing

valuable insights and thought leadership in this field, however legislation is lagging behind and California is the only state that has legislation to cover ESG and public spending. (Harvard Law Forum 2023)

Understanding the fundamental aspects of ESG and staying informed about market trends, can help you to prepare to navigate the challenges and seize the opportunities relating to ESG.

Very few businesses, and even fewer people working in businesses will need to understand the details of every reporting and regulatory standards that exist across multiple jurisdictions.

As a business leader - you need to…

Ask the right questions.

How does ESG apply within my company?
What do we need to do to get started?
& Do I understand the jargon and buzzwords relating to ESG? Enough to follow the conversation in the boardroom? *(see page 13)*

Measuring ESG varies widely depending on which of the ESG factors you are measuring and whether or not your organisation is compiling information, for company record, or as part of a reporting standard/audit.

Carbon Reporting is a common starting point for businesses, and developing a Carbon Reduction Plan is mandated to companies that bid for high value public contracts. For businesses of any size it is a great way to understand and improve efficiency of the carbon footprint in your business. We recommend working with Carbonfit for this process if it is not something you have the resources to undertake in house.

Reconsidering or analysing Waste Management within your organisation could save a fortune in utilities fees and could open up a realm of opportunities for circularity. In Northern Ireland you could reach out to the NI Resource Network. Another resource for anyone in the UK or Ireland who wants to outsource their waste auditing and reduction could be to reach out to International Synergies.

Social Issues can be more difficult to measure. On one hand there are legal requirements, like having a policy on Modern Slavery. Completion of these requirements will not help to captivate your stakeholders or social audience but they are essential.
Embedding a feedback system to collect dynamic and qualitative social feedback from your stakeholders is a great idea. Ask them about which social value projects would resonate best with your brand and ask your team to take part in the delivery of Social Value, and document their experience. Tell a story within your business. Utilising this stakeholder feedback, as well as business metrics you can better understand which issues prioritise in your ESG, this is called Materiality.

Governance needs to be embedded within the reporting structure of the company. It could be standardised to an external framework or something that is reported in house, either way it needs to be consistent and measured so that it can be audited.

“Climate chaos is wreaking havoc on economies, businesses, supply chains and public finances, and we are on a trajectory for far worse.”

António Guterres *UN secretary general*

Here in the UK, we often don’t experience the fullest extent of ESG negligence. We can ignore the social injustices that are prevalent elsewhere, and pretend that our running shoes just appeared in the shop and nobody had to work in horrible conditions to make them. Although we try to distance ourselves from the climate crisis, it is arriving closer to home and in the last year there were heatwaves in the UK that caused wildfires, buckled railways and record temperatures of 40℃. In the hottest parts of England at the time, the amount of people who died increased by 10% above the annual average for that time of year. These were attributed to the impact of the heat on already unwell people.

Flooding during the Winter of 2019/2020 caused damage and losses of £333 million to the UK Government; it would have incurred economic losses to the UK of £2.1 billion were it not for the investment in Flood Defence systems. It is becoming harder and harder to spatially separate ourselves from the climate crisis. This has had a positive impact on driving investment in mitigation, but means that we are risking so much by not becoming more sustainable.

In Ireland, research has shown that the sea temperature has risen by 0.6℃ and because of changing weather patterns across the globe, Ireland is more likely to be affected by increasingly strong storms. The Irish Environmental Protection Agency also outlines assumptions that crops will face water stressors reducing the national yield. They anticipate increased occurrence of river and sea flooding across the nation.

The USA and Australia have been massively affected, with the USA documenting an increasing amount of natural disasters in recent years. Dust bowl conditions are affecting capacity to farm in some states, dust from the degenerated top layer of soil travels in the air and can reduce visibility across miles when it occurs. In Australia weather events have become so extreme, aside from the hurricanes, wildfires, and droughts, the city of Brisbane experienced a “rain bomb” in 2022 when enough water to fill Sydney harbour *(500bn litres),* 16 times over - flowed through an atmospheric river, in the sky above the city.

Climate Change has been renamed to Climate Crisis, because of the global impact these catastrophic changes in our weather patterns are having on people, ecosystems and biodiversity.

Businesses are among the best placed entities to drive change in terms of ESG, sustainability and social value. They are more agile and adaptable than many public offices but some of the **key reasons** why business leaders are **pivotal to delivering a better future for us all** are listed here.

First, there is the massive potential for businesses to influence the market - because “the market” is just a large group of people. Consumers, become customers and brands are often closely aligned with their customers identity and sense of self. By associating themselves with particular brands, people can shape their self-concept and project a desired image to others. We see this with luxury car manufacturers who are increasing their electric or hybrid models, and both the driver, and the brand themselves, want to be perceived positively.

As public awareness and concern for ESG continues to grow, businesses that align with these values can gain a competitive advantage. By responding to market demands and consumer preferences, businesses can drive change by providing sustainable products, adopting ethical practices, and influencing their supply chains to prioritise ESG considerations.

Businesses often have substantial financial resources and extensive operational capabilities. Their access to finance within their organisation is much less restricted than it would be in a public entity, particularly if they can demonstrate a viable business case. This allows them to invest in large-scale initiatives that can have a significant impact on the environment and society as well as sustainable technologies, research & development. Because of specific R&D tax relief in the UK businesses here are further incentivised to drive innovation.

Businesses can collaborate with other stakeholders, such as governments, NGOs, and academia, to address complex societal and environmental challenges. Partnerships between businesses and these entities can leverage diverse expertise, resources, and perspectives to develop comprehensive solutions. By fostering collaboration, businesses can drive collective action and maximise the impact of their sustainability and social value efforts.

By integrating sustainability into their operations and supply chains, they can develop new technologies, processes, and products that are environmentally friendly, socially responsible, and economically viable. This innovation can spur progress in sustainability and inspire the further delivery of social value across industries.

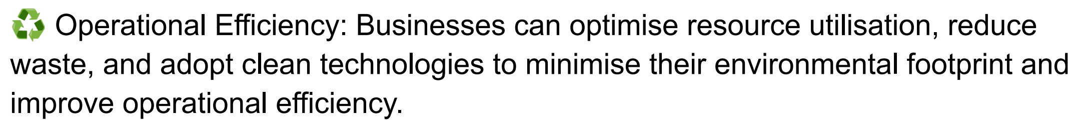
In recent years, there has been increasing pressure on businesses to be accountable for their environmental and social impact. As a result, many companies have implemented sustainability reporting frameworks, integrated

relevant certifications or standards and disclosed their ESG performance. This transparency allows stakeholders, including investors, consumers, and communities, to hold businesses accountable for their actions. By embracing transparency and setting ambitious sustainability goals, businesses can lead by example and inspire others to follow suit.

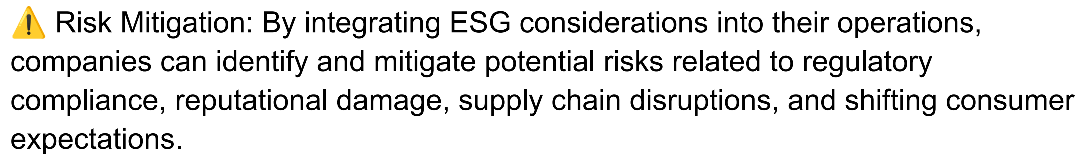
It is important to note that while businesses have the potential to drive change in terms of ESG sustainability and social value, it should not absolve other actors, such as governments and individuals, of their responsibilities. A multi-stakeholder approach involving collaboration and collective action is often necessary to address complex global challenges effectively.

Benefits

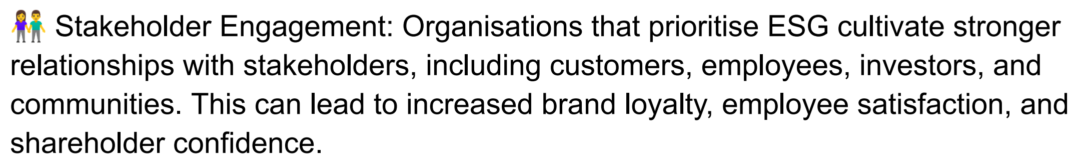
Embracing sustainable practices and social responsibility can result in:



♻️ Operational Efficiency: Businesses can optimise resource utilisation, reduce waste, and adopt clean technologies to minimise their environmental footprint and improve operational efficiency.



⚠️ Risk Mitigation: By integrating ESG considerations into their operations, companies can identify and mitigate potential risks related to regulatory compliance, reputational damage, supply chain disruptions, and shifting consumer expectations.



👫 Stakeholder Engagement: Organisations that prioritise ESG cultivate stronger relationships with stakeholders, including customers, employees, investors, and communities. This can lead to increased brand loyalty, employee satisfaction, and shareholder confidence.

Buzzwords

Biodiversity: The variety of living organisms in a given ecosystem, including plants, animals, and microorganisms. Biodiversity conservation is crucial for the resilience of ecosystems, food security and the sustainability of life on Earth.

Carbon Footprint: The total amount of greenhouse gas emissions, made up of carbon dioxide (CO_2), and CO_2 equivalents (CO_2e) caused by the operations, logistics and supply chain of an organisation. *Could be calculated at individual, event or product level.*

Carbon Neutral: Achieving a balance between emitted carbon dioxide and the removal or offsetting of an equivalent amount of carbon dioxide from the atmosphere, resulting in net-zero carbon emissions.

Circular Economy: An economic system that aims to minimise waste and maximise resource efficiency by keeping materials and products in use for as long as possible through recycling, reusing, and reducing consumption.

Greenwashing: The practice of making false or exaggerated claims about the environmental benefits of a product, service, or company, misleading consumers into thinking something is more sustainable than it actually is.

Life Cycle Assessment (LCA): A systematic analysis of the environmental impacts associated with a product, process, or service throughout its entire life cycle, from raw material extraction to disposal. It helps identify environmental hotspots in the production process and inform sustainable decision-making.

Renewable Energy: Energy obtained from sources that are naturally replenished, such as solar, wind, hydro, geothermal, and biomass. It helps reduce reliance on finite fossil fuels and prevents further greenhouse gas emissions by replacing fossil fuel energy sources.

Resilience: The ability of a system, community, or organisation to withstand and recover from shocks, disturbances, or stresses while maintaining essential functions, structures, and identity.

Sustainability: The concept of meeting present needs without compromising the ability of future generations to meet their own needs. It involves finding a balance between environmental, social, and economic considerations.

Triple Bottom Line: A framework that considers three dimensions of sustainability: environmental, social, and economic. It seeks to evaluate the performance of organisations based on their impact on people, planet, and profit.

Alphabetti-Spaghetti

CDR – [Process] Carbon Dioxide Removal. Also known as negative emissions or carbon drawdown

CDP – [Framework] Carbon Disclosure Project. A not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.

CDSB – [Framework] Climate Disclosure Standards Board. An international group of businesses and environmental NGOs, committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital.

CRD – [Standard Setting] The Corporate Reporting Dialogue. A set of eight providers of standards for corporate reporting. Aims to promote greater coherence, consistency and comparability between corporate reporting frameworks, standards and related requirements.

CSR – [Previously a synonym to ESG] Corporate Social Responsibility. Self regulation adopted by businesses that seeks to align their actions with societal good

CSRD - [Reporting Framework] Corporate Sustainability Reporting Directive. A European Union wide legislative requirement that is being introduced to expand the scope of the existing rules for non-financial reporting. It incorporates standards

of other frameworks to create one uniform standard and increases the scope of companies that are subject to this framework.

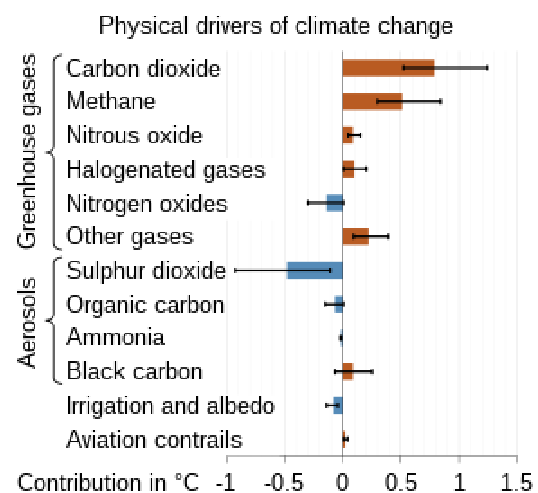
DJSI - [Index] Dow Jones Sustainability Index. Tracks the stock performance of the world's leading companies in terms of economic, environmental and social criteria. Being included on the DJSI is a mark of excellence in sustainability.

ESG – Oh come off it!

FASB - [Standards] Financial Accounting Standards Board. A nonprofit organisation in charge of creating various accounting and reporting standards for both nonprofit organisations and businesses across the United States

GFANZ – [Network] Glasgow Finance Alliance for Net Zero. Coalition of major FIs committed to accelerating a carbon-free economy. Created in the run-up to the 2021 COP26 climate summit in Glasgow, Scotland.

GHG – [Noun] Greenhouse Gases. Carbon dioxide, methane and other nasties whose accumulation in the atmosphere from human activities makes all of this necessary.



GHG Protocol - [Tool] Greenhouse Gas Protocol. The GHG Protocol is "the most widely used international accounting tool for government and business leaders to understand, quantify and manage greenhouse gas emissions." This Protocol provides a standard framework for any organisation that is trying to measure, report, compare, or collect emissions data.

The protocol is the result of a partnership between two leading Non-Governmental Organisations (NGOs) focused on sustainability, the World Resources Institute (WRI) and World Business Council of Sustainable Development (WBCSD).

GRI – [Advice] Global Reporting Initiative. An international independent organisation that helps businesses, governments and other organisations understand and communicate the impact of businesses on critical sustainability issues such as climate change.

IASB - [Standards] International Accounting Standards Board. An independent group that sets accounting standards, in preparing, auditing, or using financial reports. Global version of the FASB

ICGN – [Network] International Corporate Governance Network. A platform to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies worldwide.

IIRC – [Network] International Integrated Reporting Committee. A coalition of regulators, investors, companies, accountants, academia, and NGOs aiming to evolve corporate reporting, aligned with the goals of financial stability and sustainable development.

IPCC – International Panel on Climate Change. United Nations body that provides research and suggestions on tackling climate change.

IRSG – [Advice] International Regulatory Strategy Group. UK-based advisory organisation that examines and recommends financial and professional sector regulations.

ISO - [Standard] International Organization for Standardization. An independent, non-governmental international organisation with a membership of 168 national standards bodies.

ISSB – [Framework] International Sustainability Standards Board. New standard setting board created by the IFRS (International Financial Reporting Standard) Foundation. Created to be global and provide a uniform standard of climate and sustainability information reporting.

LEED - [Rating System - Construction] Leadership in Energy and Environmental Design. Developed by the US Green Building Council (USGBC), LEED is a set of rating systems for the design, construction, operation and maintenance of green buildings, homes, and neighbourhoods.

NDCs – [Global Plan] Nationally Determined Contributions. National plans to reduce carbon emissions, in accordance with the Paris Agreement.

NFRD – [Framework] Non-Financial Reporting Directive. The European Union’s law that enshrines the principles of sustainability reporting by large companies.

PACTA – [Tool] Paris Agreement Capital Transition Assessment. An online tool that enables companies to assess their alignment with the goals of the Paris Agreement.

PAIs – [Metrics] Principal Adverse Impact indicators. Set of indicators against which FIs can gauge the sustainability of their investments as set out by the EU Taxonomy.

PRI/UNPRI – [Guidelines] Principles for Responsible Investment. United Nations-supported guidelines for sustainable capital allocation.

RTS – [Framework] Regulatory Technical Standards. The nuts-and-bolts framework on what is required to comply with European Union laws and regulations.

SASB – [Framework] Sustainability Accounting Standards Board. Developed sector specific KPIs for sustainability – is an independent non-profit that complement the Climate Disclosure Standards Board's framework principles on reporting environmental information.

SBT – [Framework] Science Based Targets. One of the primary ways in which companies define their emissions position & reduction targets. SBTs follow Top Down Approach, they focus on the quantity of emissions that needs to be reduced in order to meet the targets set by Net Zero Standards 2021

SBTi – Science-Based Targets initiative. Body created by the CDP, World Resources Institute, the World Wide Fund for Nature and the United Nations Global Compact to chart decarbonisation pathways for companies.

SDG – Sustainable Development Goals. The United Nations' 17 bedrock targets that are a "blueprint to achieve a better and more sustainable future for all".

SDR – [Framework] Sustainability Disclosure Requirements. Requirement for organisations to report on both the impact of climate change on their organisation, and also the report on how their activities might contribute to climate change, this is "double materiality"

SFDR – [Framework] Sustainable Finance Disclosure Regulation. The European Union's principal set of rules governing financial institutions' ESG disclosures.

SRI – [Process] Socially Responsible Investing. The act of allocating capital to companies, assets and projects that contribute to sustainability targets.

TCFD – [Framework] Task Force on Climate related Financial Disclosures. It is a framework that organisations can use to publicly disclose the climate-related risks and opportunities to their businesses.

TNFD – [Framework] Taskforce on Nature Related Financial Disclosures. A risk management and disclosure framework for organisations to report and act on evolving nature-related risks. Integrates nature into decision making for businesses and financial institutions.

UNFCCC – [Framework] United Nations Framework Convention on Climate Change. The UN treaty on tackling climate change. The underpinning of the world's sustainability actions and targets.

VRF – [Non-Profit] Value Reporting Foundation. Non-profit organisation that created a suite of financial value determination resources, including SASB. Now incorporated into ISSB

Diversity of ESG - This is not one size fits all.

Environmental factors:
Environmental factors focus on a company's impact on the natural world.
They include:

- *Carbon Emissions:* Measurement of greenhouse gas emissions, including direct emissions (Scope 1) and indirect emissions from purchased energy (Scope 2) and value chain activities (Scope 3).
- *Energy Efficiency:* Assessment of energy consumption patterns and the implementation of energy-saving practices and technologies.
- *Waste Management:* Evaluation of waste generation, recycling initiatives, and efforts to minimise waste sent to landfills.
- *Resource Consumption:* Examination of water usage, raw material consumption, and efforts to conserve resources.
- *Climate Change Mitigation:* Analysis of strategies to address climate change risks, such as setting emission reduction targets and adapting to the physical impacts of climate change.

Social factors:
Social factors focus on how a company interacts with its stakeholders and the broader society.
They include:

- *Labour Practices:* Evaluation of employee working conditions, fair wages, labour rights, and policies promoting diversity, equal opportunity, and work-life balance.
- *Human Rights:* Assessment of human rights policies and practices, including supply chain labour standards and efforts to prevent human rights abuses.
- *Community Engagement*: Analysis of the company's relationships with local communities, support for community development, and philanthropic activities.
- *Customer Safety and Product Quality:* Examination of product safety measures, quality control processes, and customer satisfaction initiatives.

Governance factors:
Governance factors relate to the internal structures and practices that guide a company's decision-making and accountability.
They include:

- *Board Independence:* Assessment of board composition, independence, diversity, and expertise to ensure effective oversight and decision-making.
- *Executive Compensation:* Evaluation of executive pay practices to ensure alignment with performance and shareholder interests.
- *Shareholder Rights:* Analysis of shareholder rights and protections, including voting rights and transparency in decision-making.
- *Risk Management:* Examination of risk identification, assessment, and mitigation practices to minimise operational, financial, and reputational risks.

- *Transparency and Reporting*: Review of disclosure practices, financial reporting, and communication of ESG initiatives to stakeholders.

Evaluation of ESG factors

There are various methods that could be employed (see more in Chapter 5)

Stakeholder Engagement: Engaging with all stakeholders is crucial in evaluating the company's ESG position. Conducting internal or external surveys, interviews, or focus groups will help you to understand stakeholder expectations and concerns related to ESG issues. Regular communication and collaboration with stakeholders can provide valuable insights for assessing the company's ESG performance. Materiality is a word often used in ESG, and helps a business to understand and prioritise which elements of ESG are most important.
Examples of specific metrics and indicators to measure ESG performance - employee turnover rates, gender diversity ratios, carbon intensity, and governance scores.

ESG Assessment: Conduct an internal evaluation using an assessment tool or questionnaire to assess current performance across the aspects of ESG. This involves reviewing existing policies, practices, and performance metrics to identify areas of strength and areas that require improvement.

ESG Ratings and Rankings: Utilise an external ESG rating system to benchmark your performance against industry peers. These ratings assess ESG performance based on predefined criteria and provide a comparative analysis.
Ex. MSCI, Sustainalytics, and Dow Jones Sustainability Index.

ESG Reporting and Disclosures: When you understand your materiality (stakeholder) priorities and have done an initial assessment, developing comprehensive ESG reporting or integration of ESG disclosures into your existing reporting structure is an option. This will involve transparently reporting on key ESG metrics, goals, initiatives, and progress made over time.
Ex. Corporate Sustainability Reporting Directive (CSRD), Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), and Task Force on Climate-related Financial Disclosures (TCFD).

ESG Audits and Assessments: Another option would be to enlist the help of external auditors or sustainability consultants to conduct independent ESG audits or assessments. These audits evaluate the company's ESG performance, identify gaps, and provide recommendations for improvement. They may include site visits, data collection and analysis, and verification of ESG-related claims and targets. Credibility is increased because these are externally verified.

Engagement is the best place to start to understand exactly where your company is right now. Benchmarking against industry peers or sector specific standards can indicate the best strategic course of action.

By combining these methods, companies can gain a comprehensive understanding of their ESG position, identify areas for improvement, and develop strategies to enhance their overall ESG performance. All companies should undertake ESG strategy and methodology in a way that aligns with their specific goals, industry standards, and stakeholder expectations.

Case studies: ESG impacting business performance

Before we get into it all, it felt appropriate to highlight the impact of some of the most well known brands and the benefits felt by implementing ESG in their business. There will be reference to examples throughout the book to demonstrate how the concepts relate to real life business examples.

LUSH, The handmade cosmetics brand, that is an ever-present store in shopping districts across the UK & Europe, has long been a pioneer of the ‘green revolution’. From their product ingredients, product packaging, waste water management to embedded recycling processes. Lush have led the way in sustainability in their sector and have a market base of people who know that all of their products are fairly sourced and ethically made.

FedEx has an in-depth Sustainability policy with goals to have achieved 50% electrification of their fleet by 2025, which based on their 35,000-vehicle fleet should reduce fuel consumption by 125 million gallons. They have global initiatives including funding education and R&D into alternative jet fuel and are increasingly looking at solar panels onsite to generate onsite energy requirements.

Unilever developed Sunlight, a brand of dishwashing liquid that used much less water than its other brands, sales of Sunlight and Unilever’s other water-saving products proceeded to outpace category growth by more than 20 percent in a number of water-scarce markets. (McKinsey 2020).

Understanding what would move the needle for your stakeholders, and the ESG factors that are a priority for them because it is a solution to a problem they regularly face demonstrates the importance of in depth stakeholder engagement.

For Further Revisions of the Book
It would be great to have some more dynamic, local and relatable organisations in this section. If you would like us to consider your organisation for the next version of ESG Made Easy - contact steph@farmingcarbon.co.uk

Chapter 2

The Importance of ESG for Business